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UNCLAS SECTION 01 OF 02 MONROVIA 000894

SENSITIVE
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TAGS: ECON EINV EGAR ENRG LI
SUBJECT: FATE OF BUCHANAN RENEWABLES REMAINS UNCERTAIN AS GOL WAVERS
OVER SUSTAINABILITY ISSUES

REF: MONROVIA 725

¶1. (SBU) SUMMARY: While President Sirleaf feels tremendous political pressure to expand electric services in Monrovia, fulfilling public promises to secure 10 megawatts of power in the capital by the end of 2010, her energy advisors have been unable to proffer the definitive guidance that would enable the GOL to construct a coherent energy plan to move forward. The President summoned donors to a November 27 "emergency" meeting to make a final decision on whether to proceed with Buchanan Renewables' plan for a 35 megawatt power plant for greater Monrovia. However, the Cabinet shrank from any decision,Qggesting that they could not evaluate the deal until BR produces a feasibility study. The chronic postponement underlines the paucity of GOL capacity to deal effectively with policy issues and its tendency to focus on short-term politically-motivated thinking that has stymied progress toward power generation since 2006. END SUMMARY.

¶2. (SBU) The President called key donors, including the Ambassador, World Bank Country Director Ohene Nyanin, European Commission Chief of Operations Martin Jenner, and Counselor to the Norwegian Embassy Thorvald Boye, to an emergency meeting November 27 to decide whether to move forward with BR's plans for a Overseas Private Investment Corporation (OPIC)-funded 35-megawatt power plant fueled by rubber wood chips. The majority of the President's economic management team was present, including Minister of Finance Augustine Ngafuan, Chairman of the National Investment Commission Richard Tolbert, Minister of Lands, Mines and Energy Eugene Shannon, Presidential Energy Advisor Chris Neyor, Acting Chairman of the Liberia Electricity Corporation Joseph Mayah, and Minister without Portfolio Natty B. Davis.

¶3. (SBU) The President thanked donors for their ongoing support to the energy sector, and explained that she hoped to clarify the GOL's progress toward electrification of Monrovia before she appeared before the opening session of the National Legislature in late January to give her State of the Union speech. She emphasized her wish to fulfill a public commitment to secure 10 to 12 MW of power for the greater Monrovia area before the end of 2010, and asked her energy advisors to work strategically toward that goal.

¶4. (SBU) In October, at the behest of the GOL, a USAID-funded analyst reviewed in detail the terms of the BR power agreement. Following negotiations, BR agreed to reduce the cost of its power from 23 to 19 cents per kilowatt-hour. The GOL insisted its final offer entails a tariff of 18 cents and a change in the mechanism by which BR is paid from the escrow account, eliminating a right of priority payment that would disadvantage future competing Independent Power Providers. The GOL also warned that BR should expect no further tax breaks. The President called upon donors and her Cabinet to evaluate these terms and proffer definitive guidance on whether proceeding with the deal was in Liberia's long-term economic interests.

¶5. (SBU) Despite the meeting's stated agenda, an increasingly exasperated President indulged Neyor and Shannon in a discursive, two-hour discussion of long-term plans for rural electrification, hydroelectric energy and the rehabilitation of the Mt. Coffee hydroelectric facility, and the prospects for solar power. Neyor assured the President that numerous investors and donors, including the Japan International Cooperation Agency, Contour Global and Ormeco International have independently expressed interest in constructing a 10 MW heavy-fuel oil generator on Bushrod Island in Monrovia, and that the GOL could fulfill its end-2010 timeline. [Note: Both investors have privately told Econoffs that they continue to watch the BR deal carefully, and if Liberia breaches its contract, they may be loath to pursue further investment. End Note.]

¶6. (SBU) When discussion did turn to BR, the President asked the donors to share their frank opinions. Both the Ambassador and World Bank Country Director Nyanin declined to comment specifically on the BR deal, referring instead to the independent report sponsored by the International Finance Corporation and the Government of Norway, which outlined some shortcomings and areas for further consideration (reftel). The Ambassador emphasized that ultimate decision-making authority rested with the GOL, and donors would not presume to interfere with negotiations between the government and a private company. She noted that while donors are committed to supporting the GOL goal of securing 10 MW of power for Monrovia by the end of next year, she urged the GOL to devise a long-term energy policy, warning that politically-motivated quick fixes are unlikely to engender comprehensive electrification.

¶7. (SBU) To the surprise of other donors, who had agreed to convey a

unified message to the President, Boye said the GON would require further scrutiny of the BR deal before it could commit a promised USD 30 million over five years to support the LEC management contract and the expansion of the Monrovia distribution network. He urged the GOL to demand a feasibility study that would explore the viability of the LEC if it were to purchase power primarily from BR, and assess the project's impact on both the rubber sector and the environment.

¶8. (SBU) The President's advisors immediately seized upon the perceived need for a feasibility study and urged the donors to send a technical consultant immediately who could review it and advise. The President, alarmed by the suggestion that the sole-source BR deal might not comply with Liberia's procurement laws, acceded to the delay, but urged her team to ensure BR produced the feasibility study as soon as possible so she could make a final decision.

¶9. (SBU) In a subsequent meeting that day, the Ambassador and Nyanin worried the feasibility study may constitute a delay tactic, and agreed that it was unlikely to produce any revelations not already contained in the fifty-page IFC/GON report or unearthed by the USAID analyst. Nyanin offered to fund a short-term technical consultant to produce the feasibility study in early 2010, but noted that to satisfy Liberia's need for a coherent energy generation plan, donors must consider funding an energy task force composed of a lawyer, an engineer and an economist who would work with the GOL to create the institutional structure upon which a sound long-term strategy could be founded.

¶10. (SBU) COMMENT: Neither political pressure nor urgent social and economic need for electrification could compel the Cabinet to make a decision without recourse to donor guidance. Liberian energy policy, without the animating force of an assertive personality or strong policy-making institutions, lacks strategic direction; it has evolved little since 2006. The current predicament arose because of the GOL's desperation to quickly expand generation capacity, its weak negotiating skills and insufficient due diligence. The President herself confessed they accepted OPIC's financial support for BRE as a substitute for their own independent assessment. Whatever the merits or shortcomings of the BR deal, the GOL cannot use the lack of a feasibility study to once again abdicate responsibility for decision-making. The GON has pressed for a feasibility study since the release of its joint IFC report in

September, so Boye's intervention was intellectually consistent, if perhaps tactically unwise. His advocacy may permit the GOL to use the GON as a scapegoat for its own delayed verdict.

¶11. (SBU) COMMENT CONTINUED: If the GOL ultimately abandons the BR power project, it needs to think carefully about a default public relations strategy. Given the project's novelty and scope, foreign investors in various sectors have been eyeing BR's challenges as an augur of the setbacks and unforeseen expenses they could expect to confront in their own negotiations with the GOL. BR is a savvy manager of its own public image. If the GOL is to check the exodus of anxious foreign investors, it must cautiously rationalize why an OPIC-funded, legislatively ratified deal was not in the best interests of Liberia, how its demise did not constitute a breach of contract, and why other investors need not fear a similar fate.

THOMAS-GREENFIELD